UNITED STATES OF AMERICA BEFORE THE FEDERAL ENERGY REGULATORY COMMISSION

Alliance Companies)	
Ameren Corporation)	
On behalf of:	
Union Electric Company)	
Central Illinois Public Service Company)	
)	Docket Nos. RT01-88-000,
American Electric Power Service Corporation)	RT01-88-001, RT01-88-003, ER99-3144-009, ER99-
)	3144-011, EC99-80-009, and
On behalf of:	EC99-80-011
Appalachian Power Company)	
Columbus Southern Power Company)	
Indiana Michigan Power Company)	
Kentucky Power Company)	
Kingsport Power Company)	
Ohio Power Company)	
Wheeling Power Company)	
Consumers Energy Company)	
and Michigan Electric Transmission Company)	
The Dayton Power and Light Company	(Not Consolidated)
The Detroit Edison Company)	(Not Consolidated)
and International Transmission Company)	
Exelon Corporation)	
On behalf of:	
Commonwealth Edison Company)	
Commonwealth Edison Company)	
of Indiana, Inc.	
First Energy Corporation)	
On behalf of:	
American Transmission Systems, Inc.	
The Cleveland Electric Illuminating)	
Company)	
Ohio Edison Company)	
Pennsylvania Power Company)	
The Toledo Edison Company)	
)	

Illinois Power Company)	Docket No. RT01-84-000
)	
Northern Indiana Public Service Company)	Docket No. RT01-26-000
)	
Virginia Electric and Power Company)	Docket No. RT01-37-000

REQUEST FOR REHEARING OF THE ILLINOIS COMMERCE COMMISSION, THE MICHIGAN PUBLIC SERVICE COMMISSION, THE INDIANA UTILITY REGULATORY COMMISSION. THE PENNSYLVANIA PUBLIC UTILITY COMMISSION AND THE PUBLIC UTILITIES COMMISSION OF OHIO

Pursuant to Rule 713 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §385.713, the Illinois Commerce Commission, the Michigan Public Service Commission, the Indiana Utility Regulatory Commission, the Pennsylvania Public Utility Commission and the Public Utilities Commission of Ohio ("Midwest State Commissions") hereby respectfully submit this Request for Rehearing of the Commission's Order issued July 12, 2001, in the above-captioned proceedings ("July 12 Order").

I. <u>INTRODUCTION</u>

The Commission demonstrated tremendous initiative on July 12 when it articulated its newly adopted policy to have a single regional transmission organization ("RTO") in each of the nation's four natural markets. The Midwest State Commissions applaud the Commission's stated RTO objectives as beneficial to the public interest in the Midwest. The Commission, however, did not initiate a mediation process for the Midwest region. The Commission did not take this step, in part, because of the existence of a Settlement between the Midwest Independent System Operator ("MISO" or

 $^{^1}$ Alliance Companies, et al., 96 FERC $\P61,\!052$ (2001) ("July 12 Order").

"Midwest ISO"), certain transmission owners of the MISO and the Alliance Companies.² The Settlement is based in large part on an Inter-Regional Cooperation Agreement ("IRCA"), which, if implemented in a diligent and timely manner, would help to mitigate the seams that result from the existence of two RTOs in the Midwest region. Unfortunately, the Settlement has not, to date, been implemented as envisioned. The Midwest State Commissions, therefore, respectfully request that the Commission initiate a mediation process in the Midwest for purposes of remedying these problems in implementing an interregional cooperation approach to achieving adequate RTO scope and configuration in the Midwest. Additionally, such a mediation process could be utilized as a forum for the parties to address continued and expanded RTO development in the Midwest, which could include the development of a single RTO that would encompass the entire Midwest natural market.

II. <u>BACKGROUND</u>

On September 16, 1998, the Commission conditionally authorized the establishment of the Midwest ISO.³ Subsequently, on December 20, 1999, the Commission conditionally approved the transfer of ownership and/or functional control of the jurisdictional transmission facilities of certain transmission-owning public utilities to the Alliance regional transmission organization ("ARTO" or "Alliance RTO").⁴ As a result, the Midwest region is currently set to host more than one RTO.

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² July 12 Order, slip op. at 15; see also, Illinois Power Company, et al., 95 FERC ¶61,183 (2001)(accepting the Settlement between the Alliance Companies, MISO and certain MISO transmission owners with certain clarifications and modifications).

³ Midwest Independent Transmission System Operator, Inc., 84 FERC ¶61,231 (1998).

⁴ Alliance Companies, et al., 89 FERC ¶ 61, 298 (1999) ("Alliance I Order").

In the Alliance I Order, the Commission initially expressed concerns with regard to the Alliance RTO's compliance with the characteristic of scope and configuration that Order 2000 mandates. The Alliance Companies attempted to address these concerns through a series of compliance filings.⁵ Pending a Commission ruling on the Alliance Companies' second compliance filing, the Alliance Companies made their initial Order 2000 compliance filing on January 15, 2001,⁶ and requests were made to withdraw certain transmission owning entities from the MISO.⁷

On January 24, 2001, the Commission issued its Order on the Alliance Companies' second compliance filing⁸ and also ordered the initiation of settlement discussions, the purpose of which was to address the withdrawal requests and the associated myriad of problems with the development of an RTO in the Midwest region ("Midwest Settlement Discussions"). While deferring a final ruling on the Alliance Companies' compliance with Order 2000 until the Commission's review of the companies' specific Order 2000 compliance filing, the Commission made a preliminary statement that the ARTO's scope and configuration would be consistent with Order 2000. As part of its stated rationale, the Commission emphasized the Alliance Companies' participation in the Midwest Settlement Discussions and their efforts toward

⁵ See, Alliance Companies, et al., 91 FERC ¶61,152 (2000)("Alliance II Order)(reviewing the Alliance Companies initial compliance filing and ordering the companies to submit an additional compliance filing to address concerns with scope and configuration). The Alliance Companies made their second compliance filing on September 15, 2000.

⁶ The Alliance Companies supplemented this filing on May 15, 2001.

⁷ See, Notice of Withdrawal, *Illinois Power Company*, Docket No. ER01-123-000 (filed Oct. 13, 2000); Notice of Withdrawal, *Central Illinois Light Co., et al.*, Docket No. ER01-731-000 (filed Dec. 20, 2000); Notice of Withdrawal, *Exelon Corporation, et al.*, Docket No. ER01-780-000 (filed Dec. 22, 2000); Notice of Withdrawal, *Union Electric Company, et al.*, Docket No. ER01-966-000 (filed Jan. 16, 2001).

⁸ Alliance Companies, et al., 94 FERC ¶ 61, 070 (2001) ("Alliance III Order").

⁹ Illinois Power Company, 94 FERC ¶61,069 (2001).

¹⁰ Alliance III Order, slip op. at 8-9.

¹¹ *Id.* at 20.

an Inter-RTO Cooperation Agreement. The Commission stated that a potential "agreement will have a mitigating effect on our previously expressed concerns regarding Alliance's configuration which spans two NERC [North American Electric Reliability Counsel] regions."

On May 8, 2001, the Commission approved an Offer of Settlement that resulted from the Midwest Settlement Discussions.¹³ In large part, the basis of the Settlement was the execution by the Alliance Companies and MISO of an IRCA. As a result, approval of the Settlement, in and of itself, did not resolve the problems that arise from the existence of multiple RTOs across a single, natural market. Instead, as noted by the Commission, "the Settlement and Cooperation Agreement both merely provide steps on a path meant to arrive at a seamless Midwest market."¹⁴

Several State Commissions from the Midwest region participated in the Midwest State Settlement Discussions leading up to the Offer of Settlement. The Midwest State Commissions' stated goal was to achieve a seamless wholesale power market that would cover the entire natural Midwest market. Although the Settlement did not provide for a single Midwest RTO, the Midwest State Commissions did not contest the Settlement. In Comments filed on the Offer of Settlement, the Midwest State Commissions gave eleven examples of how the Offer of Settlement would make the prospect of achieving seamlessness uncertain without further action. Nevertheless, the Midwest State

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 $^{^{12}}$ Id

¹³ Illinois Power Company, et al., 95 FERC ¶61,183 (2001)("Settlement Order").

¹⁴ Settlement Order, slip op. at 35.

¹⁵ See, Initial Comments of the State of Michigan, et al., Docket No. ER01-123-000, et al. (filed Mar. 30, 2001)("Midwest State Commissions' Comments on Settlement Agreement").

¹⁶ For example, the Midwest State Commissions identified the following flaws in the Settlement's design: (1) generators outside the MISO/ARTO super-region will continue to pay pancaked rates to cross one of the two RTOs and access load in the other; (2) there is no certainty that any of the interregional

Commissions took the position that certain aspects of the Settlement, *if implemented in a diligent and timely manner*, would further the goal of establishing a seamless market in the Midwest region. The position was contingent on all stakeholders and interested parties working cooperatively on steady and swift progress toward, and achievement of, each aspiration of the Settlement because significant seams will exist in the Midwest market absent full and timely implementation of each aspect of the Settlement.

On July 12, 2001, the Commission issued its order addressing the Alliance Companies' Order 2000 Compliance Filings simultaneously with orders addressing RTO development in other areas of the country. The Commission stated a clear policy objective regarding the need to establish one RTO for each of the country's four natural markets, i.e., the Northeast, Southeast, Midwest and West. Further, the Commission took steps to effectuate this policy by initiating mediation proceedings in the Northeast and Southeast.

The Commission did not take a similar approach toward the Midwest. The Commission's decision for the Midwest was based, in part, on the existence of the Settlement and the IRCA.¹⁹ Unfortunately, as explained in greater detail, *infra*, the execution of the Settlement Agreement is not occurring in full and complete accordance

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cooperation elements of the Settlement, including the super-regional rate, will remain in place after December 31, 2004; and (3) the existence of two RTOs in the Midwest region will impose unnecessary cost duplication.

¹⁷ See, Order Rejecting RTO Filings, Southwest Power Pool, Inc., et al., Docket No. RT01-34-000, et al. at 9 (July 12, 2001).

¹⁸ See e.g., Order Initiating Mediation, *Regional Transmission Organizations*, Docket Nos. RT01-100-000 (July 12, 2001).

July 12 Order, slip op. at 15 (supporting its determination that the ARTO satisfies scope and configuration, in part, on "the fact that Alliance grew ... contractually (with the execution of the Cooperation Agreements with the Midwest ISO)"). While the Commission's July 12 Order states that it is also relying "on the reasons previously stated in the Alliance III Order, and the fact that the Alliance RTO grew ... physically (with the addition of the new members as well as the departing Midwest ISO)

with its terms. The Midwest State Commissions, therefore, respectfully request rehearing of the Commission's July 12 Order.

III. SPECIFICATIONS FOR REHEARING

- The Commission should consider how the Settlement and IRCA have been implemented to date as a factor in determining the ARTO's satisfaction of Order 2000's scope and configuration requirement.
- 2. The Commission should initiate a mediation process in the Midwest region, the purpose of which would be to address Settlement implementation problems and which could also be utilized to address continued and expanded RTO development, including the potential of a single RTO, in the Midwest.

IV. <u>DISCUSSION</u>

A. THE COMMISSION SHOULD CONSIDER HOW THE SETTLEMENT AND IRCA HAVE BEEN IMPLEMENTED TO DATE AS A FACTOR IN DETERMINING WHETHER THE ALLIANCE COMPANIES HAVE SATISFIED THE SCOPE AND CONFIGURATION REQUIREMENTS OF ORDER NO. 2000.

An agency should consider all relevant factors in its decision-making. *Citizens to Preserve Overton Park v. Volpe*, 401 U.S. 402, 416 (1971); *U.S. Dept. of the Interior v. FERC*, 952 F.2d 538, 543 (D.C. Cir. 1992). In this case, the Commission, in making its determination that the Alliance RTO satisfies Order 2000's scope and configuration requirement, relied upon the Settlement and IRCA.²⁰ The Settlement, *inter alia*, was intended to mitigate the seams problems within the Midwest region that exists as a result

members)" to support its decision on scope and configuration, these factors are insufficient absent the full and complete implementation of IRCA.

²⁰ July 12 Order, slip op. at 15.

of the two separate RTOs.²¹ To date, however, certain aspects of the Settlement and the IRCA have not been appropriately implemented. The absence of progress in implementation leads the Midwest State Commissions to the conclusion that seams issues in the Midwest will not be adequately mitigated in a timely manner. The Midwest State Commissions, therefore, respectfully request the Commission to rehear its decision that the Alliance RTO satisfies Order 2000's scope and configuration requirement in order to consider Settlement Implementation as a key factor in its determination.

1. Adequate Settlement Implementation Should Be a Factor Considered Under the Practical Equivalent Test

Order 2000 established the policy that an RTO must serve an appropriate region. While Order 2000 did not specifically define regions across the country, it is recognized that the purpose of an RTO is to support regional power markets in terms of reliability, operations and wholesale trading; and the scope and configuration of an RTO should be designed toward that purpose.²² In sum, an RTO should be of "sufficient scope and configuration to permit the [RTO] to maintain reliability, effectively perform its required functions, and support efficient and non-discriminatory power markets."²³

The best way for an RTO to satisfy scope and configuration is by being established across the entirety of a regional market because a single RTO eliminates the risks of broken agreements or inconsistent interpretations thereof. In Order 2000, the

grid, and take into account useful existing regional boundaries (such as NERC regions). Id. at 258-63.

²¹ See, Settlement Order, slip op. at 35.

²² Order No. 2000, *Regional Transmission Organizations*, 65 Fed. Reg. 809, slip op. at 24-57 (Jan. 6, 2000), FERC Stats. and Regs. ¶ 31,089 (1999), *order on reh'g*., Order No. 2000-A, 65 Fed. Reg. 12,088 (Mar. 8, 2000), FERC Stats. and Regs. ¶ 31,092 (2000). In listing factors for consideration in setting RTO boundaries, the Commission stated that boundaries should, among other things, recognize trading patterns, encourage competitive energy markets, not unnecessarily split existing control areas or existing regional transmission entities, encompass contiguous geographic areas and highly interconnected portions of the

Commission stated, nonetheless, that if an RTO's boundaries fail to cover an appropriate region, the Commission would allow the RTO to prove "effective scope" by coordination and agreements with neighboring entities, or by participating in a group of RTOs with either hierarchical control or a system of very close coordination in order to satisfy Order 2000.²⁴ The Commission elaborated that "an RTO application that proposes to rely on 'effective scope' to satisfy Characteristic 2 [scope and configuration] must demonstrate that the arrangement it proposes to eliminate the effect of seams *is the practical equivalent of eliminating the seams by forming a larger RTO*."

In this case, as the ARTO's configuration is inconsistent with the boundaries of the natural Midwest market, adequate inter-regional cooperation between the ARTO and the MISO should exist to ascertain that seams problems are sufficiently mitigated in satisfaction of the practical equivalent test. Accordingly, the Commission relied on the Settlement and the IRCA executed by the Alliance Companies and the MISO to find that the ARTO satisfies scope and configuration.²⁶ Unfortunately, neither the IRCA nor the Settlement as a whole is being implemented in a manner satisfactory to Order 2000.

As the Midwest State Commissions noted in their Comments on the Settlement, the Settlement's dependency on the IRCA meant that the process toward the mitigation of harmful seams effects in the Midwest region was only beginning. In other words, the Settlement created a transition mechanism to be implemented with the goal of

²³ 18 C.F.R. §35.34(j)(2).

²⁴ Order 2000, slip op. at 258.

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²⁶ July 12 Order, slip op. at 15 (stating that the ARTO's execution of the IRCA with the MISO is a basis for the Commission's determination on scope and configuration).

eliminating the seams that exist because of the multiple RTOs in the Midwest region.²⁷ The Settlement would only achieve the goal of establishing a seamless market in the Midwest region if implemented in a diligent and timely manner. Accordingly, in this case, the Commission should base any finding of "effective scope" "on steady and swift progress toward, and achievement of, each aspiration set forth in the Settlement Agreement." As the problems discussed in turn below illustrate, such timely and diligent implementation has not materialized.

First, in Order 2000, the Commission stressed that use of a "collaborative process" is a key element in the development of RTOs. The Commission viewed this particular aspect of effective RTO development so critical as to devote an entire section of Order 2000 to explaining the importance of the collaborative process." With respect to ongoing oversight of an RTO and stakeholder input into an RTO, Order 2000 stated that "[w]here there is a non-stakeholder board, we believe that it is important that this board not become isolated ... [b]oth formal and informal mechanisms must exist to ensure that stakeholders can convey their concerns to the non-stakeholder board."³⁰

In the Commission's Alliance III Order, the Commission found that the process proposed by the Alliance Companies for stakeholders to provide input to the RTO was severely flawed.³¹ The Alliance Companies were directed to "develop an advisory process in consultation with stakeholders."³² The Commission repeated this directive in

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²⁷ See, Settlement Order, slip op. at 35 (recognizing that the Settlement merely establishes a transition mechanism).

²⁸ Midwest State Commissions' Comments on Settlement Agreement at 4.

²⁹ Order 2000, slip op. at 643-52.

³⁰ *Id.*, at 230.

³¹ Alliance III Order, slip op. at 14.

³² Id

its July 12 Order.³³ In addition to the Commission's mandate, the Settlement Agreement also requires the Alliance Companies to develop a process in consultation with stakeholders for collaboration with stakeholders, including state commissions, in RTO formation and to provide an ongoing role for stakeholders once the RTO becomes operational.

An adequate stakeholder process is important to addressing representation issues, such as the following: (1) how many representatives each stakeholder group should have; (2) whether there should be a representative from a State Commission that is affected by the Alliance but not necessarily within the Alliance RTO region; and (3) what type of representation the Alliance Companies and their affiliates should have on the Advisory Committee as voting members and participants. In addition, stakeholders should have input in developing the Advisory Committee's responsibilities, such as potential involvement in the development of policies, oversight of market monitoring or the selection of board members. An advisory process should, at a minimum, provide for advance notice of and consultation with the Advisory Council prior to significant decisions affecting implementation of the RTO.

To date, notice and consultation have not occurred.³⁴ The Alliance Companies' repeated failures in this area led to a request, on July 30, 2001, of the Midwest State Commissions to involve the services of Mr. Richard Miles, Director of the Commission's Office of Dispute Resolution.

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³³ July 12 Order at 41.

³⁴ To illustrate, the Alliance Companies recently posted an advisory process on their website and sent out a press release to notify the stakeholders of the process without ever consulting with stakeholders on the creation of the process.

Second, the Alliance Companies have yet to fulfill the requirement for an independent board to be put in place and assume all business decision authority for the RTO. Even more problematic, despite the Commission's pronouncement in its July 12 Order for the Alliance Companies to establish an independent board immediately, the Alliance Companies have not even established a specific timeline for having an independent board in place. In the meantime, the Alliance Companies are making significant decisions that have a direct impact on market development. For example, the Alliance Bridgeco decided to require all transmission customers to submit balanced schedules, i.e., generation must equal anticipated load, thus potentially hindering the development of a substantial real-time spot market for power. Ultimately, the Alliance Companies continue to make significant business decisions affecting critical aspects of the ARTO while not adequately considering stakeholders' needs, the Settlement Agreement and prior Commission directives.³⁵

Third, the Settlement required the development of procedures and protocols to ensure compatibility across the region in many vital market design aspects, including a real-time balancing market, long-term congestion management and generator interconnection practices. These aspects lie at the heart of establishing a market-enabling framework. If a single Midwest RTO were in existence, these market design aspects would be developed consistently and seamlessly across the entire region. Yet, in the Midwest, many of these vital market design aspects are currently being developed

³⁵ While the Alliance Companies hold meetings on market design issues, the companies unilaterally develop the meetings' agendas. Also, in the opinion of the Midwest State Commissions, the meetings amount to mere presentations by the Alliance Companies rather than a collaborative effort among the companies and stakeholders. The modest amount of time devoted by the Alliance Companies to market design issues stands in contrast to the intensive and protracted efforts b the MISO's Advisory Committee and Subcommittees.

independently by the Alliance Companies and by the MISO, including but not necessarily limited to, long-term congestion management, generation interconnection, transmission planning, security coordination and available transmission capacity, and real-time balancing. The lack of cooperation between the ARTO and the MISO means that the Midwest seams problems remain, and are likely to continue remaining, unresolved.

In short, the implementation of the Settlement is failing to achieve the "practical equivalent" of having a single RTO in the Midwest. Successful implementation of the Settlement and the IRCA should be a prerequisite to any finding of adequate scope and configuration. Accordingly, the Commission should rehear its decision that the Alliance RTO satisfies Order 2000's scope and configuration requirement, and require the Alliance Companies to sufficiently demonstrate that the Settlement and IRCA are being fully and timely implemented prior to any finding on scope and configuration.

2. Initiation of a Midwest Mediation Process is the Appropriate Remedy

The Commission issued Orders addressing the Northeast and Southeast regions simultaneously with its July 12 Order. In its Northeast and Southeast Orders, the Commission expressed its new policy for obtaining a single RTO for each region based on the following rationale:

The Commission has been attempting to facilitate the development of large, regional transmission organizations reflecting natural markets since we issued Order No. 2000. We favor the development of one RTO for the Northeast, one RTO for the Midwest, one RTO for the Southeast and one RTO for the West. Through their independence from market participants, RTOs can ensure truly non-discriminatory transmission service and will instill confidence in the market that will support the billions of dollars of capital investment in generation and demand side projects necessary to support a robust, reliable and competitive electricity marketplace. RTOs

are the platform upon which our expectations of the substantial generation cost savings to American customers are based.³⁶

The Commission took steps to effectuate this policy by ordering parties in the Northeast and Southeast to engage in mediation.³⁷

Notably, the Commission admitted a willingness to "consider using mediation in other RTO regions in the future as appropriate." It is also appropriate for the Commission to initiate mediation in the Midwest region. The purpose of the mediation would be to address the Settlement implementation problems addressed above. In addition, the Commission could direct the parties to utilize the mediation process as a forum to address continued and expanded RTO development in the Midwest. Such discussions could include the future potential of a single RTO that would encompass the entire Midwest natural market, which is the exact course urged upon the Commission by Commissioner Massey in his concurrence to the July 12 Order:

To facilitate the <u>timely development of the single Midwest RTO</u>, which our orders today state as a clear objective, I would direct Alliance, the Midwest ISO, and the Southwest Power Pool to a mediation proceeding with the same objective and timetable as that for the Northeast and Southeast RTOs. The settlement that we approved between the Alliance and Midwest ISO was a bold step in the right direction, but those institutions should have been directed toward a single RTO from the outset. And SPP would add even greater scope to the Midwest RTO. In this order, we fail to establish a mediation proceeding for a Midwest RTO. I would have done so and in this order directed Alliance to participate along with SPP and the Midwest ISO. Although I am pleased with the progress we make today, I am somewhat disappointed that we once again miss a golden opportunity to achieve in the Midwest what we insist upon in the Southeast and the Northeast.³⁹

³⁶ See, Order Rejecting RTO Filings, Southwest Power Pool, Inc., et al., Docket No. RT01-34-000, et al. at 9 (July 12, 2001)(emphasis added).

³⁷ See e.g., Order Initiating Mediation, Regional Transmission Organizations, Docket Nos. RT01-100-000 (July 12, 2001).

 $^{^{38}}$ *Id.* at 1 n.1.

³⁹ July 12 Order, Commissioner Massey Concurrence at 2 (emphasis added).

The current circumstances would present the Commission with a "golden opportunity" to achieve this end.

V. <u>CONCLUSION</u>

WHEREFORE, for each and all of the aforementioned reasons, the Illinois Commerce Commission, the Michigan Public Service Commission, the Indiana Utility Regulatory Commission, the Pennsylvania Public Utility Commission and the Public Utilities Commission of Ohio respectfully request that the Commission rehear its July 12, 2001, decision concerning the Alliance RTO's scope and configuration, initiate a mediation proceeding for the Midwest region, and for any and all other appropriate relief.

August 13, 2001

Respectfully submitted,

Myra Karegianes General Counsel and Special Assistant Attorney General

Sarah A. Naumer Thomas G. Aridas Special Assistant Attorneys General Illinois Commerce Commission 160 N. LaSalle, Suite C-800 Chicago, Illinois 60601 (312) 793-2877

Jennifer M. Granholm
Attorney General of the State of Michigan
David A. Voges

Patricia S. Barone
Assistant Attorneys General
Michigan Public Service Commission
Public Service Division
6545 Mercantile Way, Suite 15
Lansing, Michigan 48917
(517) 334-7650

David D'Alessandro
Harvey L. Reiter
Morrison & Hecker L.L.P.
1150 18th Street, NW, Suite 800
Washington, DC 20036
(202) 785-9100
Special Assistant Attorneys General
for the Michigan Public Service
Commission

Kristina Kern Wheeler General Counsel Indiana Utility Regulatory Commission Indiana Government Center South 302 W. Washington Street, Suite E-306 Indianapolis, Indiana 46204 (317) 232-6735

Andrew S. Tubbs Assistant Counsel Pennsylvania Public Utility Commission 400 North Street P.O. Box 3265 Harrisburg, Pennsylvania 17120 (717) 787-2871 Thomas W. McNamee Assistant Attorney General Public Utilities Commission of Ohio 180 East Broad Street Columbus, Ohio 43215 (614) 644-8754 **CERTIFICATE OF SERVICE**

I hereby certify that I caused a copy of the Request for Rehearing of the Illinois

Commerce Commission, the Michigan Public Service Commission, the Indiana Utility

Regulatory Commission, the Pennsylvania Public Utility Commission and the Public

Utilities Commission of Ohio to be served this day upon each person designated on the

official service list compiled by the Secretary in this proceeding, a copy of which is attached,

in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and

Procedure.

Dated at Chicago, Illinois, this 13th day of August, 2001.

Sarah A. Naumer

Special Assistant Attorney General

Illinois Commerce Commission

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